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Monthly Brief on the Italian Political Economy

May 2024

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Every month, our Monthly Brief on the Italian Political Economy provides a bullet-point recap of the month's main events, followed by reasoned deep dives and/or interesting graphs and commentaries on topics of significance for economic policymaking in Italy.

Lorenzo Moretti and Donato Di Carlo[1]

[1] We thank Giovanni Pacchiardi and Giulio Petrillo for their excellent research assistance.

LAST MONTH IN BRIEF

06/05	The Council of Ministers approves a Decree to support the farming and fishing sectors, including a provision that poses limits to the installation of photovoltaic panels on agricultural lands (see **Deep Dive 1**)
07/05	A Decree to reform the management of the EU Cohesion funds enters into force and it includes important changes to the long-standing tax breaks for employment in the South (see **Deep Dive 2**)
15/05	The Ministry for Enterprises and Made in Italy organises the first meeting on Regional Technological Aerospace Districts, to identify the priorities of the sector and present the approach behind the upcoming Italian Space Law
17/05	PM Meloni holds a meeting with the representatives of the Business 7, the body for private sector industries within the G7 format. The Italian Presidency of the B7 handed the President the private sector recommendations on how to face the main current global challenges
22/05	The government freezes the implementing decree on the so-called "redditometro", scaling back on strengthening the checks against tax evasion, mainly due to fear for electoral backlash
27/05	Minister Urso signs an agreement, within the framework of the Mattei Plan, with Tunisia's Minister for Communication Technology Nizar Ben Neji to promote economic and industrial collaboration on artificial intelligence and digital transition
30/05	The European Commission approves the acquisition of NetCo, which comprises the fixed-line network business of Telecom Italia S.p.A. ('TIM') as well as FiberCop S.p.A ('FiberCop'), by the American fund KKR (see **LUHNIP January Monthly Brief**)
30/05	The energy ministers of Italy, Austria and Germany sign a cooperation agreement to develop a network to transport hydrogen from the southern Mediterranean to northern Europe. Italy is set to play a strategic role allowing to pump gas from Africa to Central Europe
31/05	The European Commission approves €2 billion in Italian State aid to the Italian-French STMicroelectronics to build a new semiconductor manufacturing facility in Catania, Sicily

DEEP DIVE 1

The government seeks to restrain solar panel installations on agricultural land

On 6 May, the Council of Ministers approved a decree containing a series of measures to support the agricultural sector. Among the provisions, restrictions on solar panel installations stand out. Article Five bans new installations of ground-mounted photovoltaic panels in areas classified as agricultural and prohibits extension of existing ones (maintenance can continue). As an important caveat, however, the provisions allow the development of so-called agri-voltaic projects—solar panels installed *over* fields, allowing crops to grow underneath.

Coldiretti, the most powerful and vocal association of farming entrepreneurs, has been asking for such a restriction on photovoltaics for months, claiming that the Italian farming sector cannot afford to lose any portion of agricultural land. Coldiretti gained the strong support of the Minister for Agriculture Francesco Lollobrigida, who significantly exposed himself to have this provision approved. The decree, however, also triggered opposition, especially from the renewable energy sector. The ban, they argue, will jeopardise Italy's efforts for the green transition and severely damage the Italian economy.

The decree is now under Parliamentary examination and will most likely be approved without further amendments.

Commentary

The debate over the impact of this ban has just started but three main aspects already stand out.

The first are the cost implications. In an interview, Agostino Re Rebaudengo, the President of Elettricità Futura, the industrial consortium of electricity producers and suppliers, highlighted that the exclusion of agrivoltaic projects from the ban is far from enough to avoid significant increases in production costs. The agrivoltaic panels are more expensive, as they need to stand two metres from the ground. Therefore, installing and maintaining them can cost 25%-60% more, according to the 2022 guidelines published by the Ministry for Ecological Transition of the previous government (the range depends on whether the crops underneath are native or not). As a result, it is likely that costs for energy consumers will also rise, as underlined also by the President of Utilitalia, the association of electricity providers.

Second, there are concerns about Italy's capacity to meet its climate goals. During the G7 Ministerial meeting on climate and energy, Italy reaffirmed its commitment to triple the installed renewable energy capacity by 2030, an extremely challenging objective even without any ban. In a letter to PM Meloni, Elettricità Futura and Federazione ANIE, the industrial association of companies building and managing electricity plants, wrote that the ban could prevent around 80% of the necessary photovoltaic projects. Minister for Environment and Energy Gilberto Pichetto Fratin stated that this decree will not harm Italy's goal to reach 38GW from photovoltaic sources by 2030. However, during question time at the Senate, he hinted that Italy can achieve its climate goals via a different energy mix, which may also include nuclear energy. This statement is coherent with other declarations made by the Minister, although more concrete action is yet to materialise.

Finally, the episode offers a reflection on the extent to which there are trade-offs within the green transition. Looking at how the Italian government framed the decision, agriculture and photovoltaic production seem to be two incompatible sectors. However, the Meloni government has overemphasised a trade-off which, in this specific case, is not that significant. The amount of agricultural land taken up by these activities would be minimal for the agricultural industry—about 1% according to energy operators—but the energy produced would be significant for Italy's renewables production. Similarly, important agriculture and environment associations, such as Slowfood and Legambiente, refused this contraposition, underlining that cheap renewable energy is a primary need also for farmers. In its note, Legambiente also specified that land consumption must be fought in other ways, and not by harming renewable energy production. Thus, it seems that in this case, the government has used the issue also to make a political statement on the green transition, and send a signal to an important constituency—Italian farmers.

DEEP DIVE 2

The Cohesion Policy Reform

In its Law Decree of 7 May, the Council of Ministers approved a reform of the country's cohesion policy, the €74bn program to support the economic catch-up of less developed regions and reduce regional disparities (€42bn of which is financed by the EU). The reform updated the governance of the program to accelerate interventions in a set of strategic sectors, such as energy and water resources. Moreover, it introduced implementing measures worth €2.9bn—mostly financed via the existing National Youth, Women and Work Program—to support the double objective of stimulating self-employment and incentivising job creation. The first set of measures includes cash bonuses and 100% discounts on social security contributions. Conditions are even more attractive for new business activities set up by entrepreneurs below the age of 35 and developing new technologies related to the digital and green transition. Interventions related to job creation incentivise small firms to employ young workers (<35) who never had a long-term employment contract, as well as long-term unemployed women (and men, if in Southern regions).

Commentary

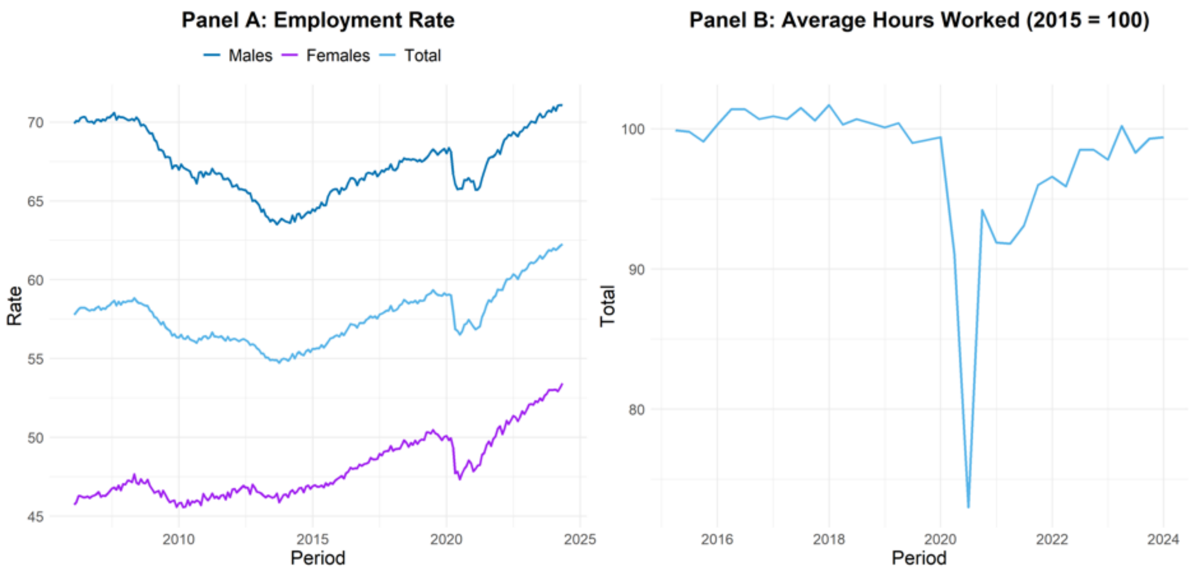
The reform is important because it reframes the approach to state aid for economic development, especially in the South, and refocuses attention on the use of public resources.

One of the most scrutinised aspects was the discontinuation of a 30% discount on employers' social security contributions covering all employees in the South ("Decontribuzione Sud"), introduced in 2020 as an emergency measure to support firms. Opposition parties have harshly criticised the decision and Minister Fitto has committed to negotiate with the Commission for a new de-contribution targeted at the South. However, a recent analysis by the National Social Security Institute (INPS) found that the 30% contribution discount—which applied also to existing contracts—had only a modest and temporary impact on employment and no effect on remuneration. Thus, a remodulation looked necessary. If the policy objective is to boost employment, the new version with a higher contribution discount (100%) for new jobs seems more likely to deliver it. It is also in line with INPS' recommendations, which in previous analyses of youth employment measures argued in favour of more substantial discounts than the 30% of the original "Decontribuzione Sud". On the other hand, the reform still lacks measures to raise salaries as it is now clear that discounts on employers' social security contributions are ineffective in improving workers' remuneration.

More broadly, while a re-organisation is welcome, these measures remain mostly untargeted and very "horizontal". They apply equally in all the areas of the South, irrespective of local specificities and economic specialisation. They are also largely untargeted in terms of sectors, implying the lack of a clear and specific industrial strategy for Italy's South. This is the same shortcoming we identified in the recent reform of the Special Economic Zones (see our February brief). Such policies are therefore unlikely to do much to pull Southern Italy away from its consumption-based growth regime, highly dependent on state support measures. Instead, policy makers should foster structural change by increasing employment shares in higher-productivity sectors (which has not happened over the last two decades) and promoting specialisations that can create a competitive advantage. This will include investments to close infrastructural gaps, as also suggested by a recent Svimez report. Some of this is starting to transpire in the other elements of the cohesion policy reform, which aims to concentrate resources on a few "strategic sectors" and "critical technologies." More, however, can be done to unlock the potential of the South and reflect its local economic characteristics.

GRAPH OF THE MONTH

Employment Rate attains record in Italy



Source: Istat. Employment rates refer to the 15-64 age bracket, while (seasonally adjusted) average hours worked to Industry and Services employees of firms with 1 or more employed workers.

The occurrence of labour day (May 1st) offers an opportunity to reflect on developments in Italy's labour market. After serious challenges in the years following the Great Financial Crisis (GFC) and Sovereign Debt Crisis (SDC), it is now continuing on a trend of improvement. For the first time since 2008 the unemployment rate has fallen below 7% in April (although youth unemployment remains above 20%), while the employment rate has finally overcome its pre-GFC level after strong post pandemic performances. The graph of this month suggests 3 considerations. First, the upward trending lines since the mid-2010s (**Panel A**) show that the improvements likely reflect structural dynamics ongoing since the SDC, rather than short-term government policies. These may actually be playing a supporting role, especially in sectors like construction (see **LUHNIP April Monthly brief**). Second, a more granular look (Panel A) reveals that much of the employment dynamics can be attributed to record female occupation. While male participation has just about recovered from pre-GFC levels, female participation has surged to over 53% in the first quarter of this year, a level never seen before. This underlines how equal access to the job market can boost economic performance. Lastly, more recent average hours worked have recovered well (**Panel B**), returning roughly to pre-Covid levels, suggesting that increased occupation rates have not come at the expense of working hours.